

Message Text

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SUBJECT: GOI 1977 BUDGET PRESENTED TO DAIL

REF. DUBLIN 178

1. FINANCE MINISTER RICHIE RYAN JANUARY 26 PRESENTED TO THE DAIL (IRISH PARLIAMENT) THE GOVERNMENT'S BUDGET FOR 1977. PRESS COMMENTARY DESCRIBED IT AS AN ELECTION YEAR BUDGET DESIGNED TO WIN THE BROADEST POSSIBLE SUPPORT FOR COALITION PARTNERS AND SAID THAT RYAN HAD SPREAD CONCESSIONS THINLY ACROSS THE BOARD. WHILE THE GOVERNMENT UNDOUBTEDLY HAS IN MIND THE POSSIBILITY OF AN ELECTION THIS YEAR (QUITE POSSIBLY AS EARLY AS THE SPRING) IT NEVERTHELESS, HAS PRESENTED A REALISTIC BUDGET THAT SHOULD CONTRIBUTE TO THE ECONOMIC BETTERMENT OF IRELAND, PARTICULARLY IN TERMS OF STIMULATING INDUSTRY. THE BUDGET IS NOT EXPANSIONARY AND THE NET FISCAL EFFECTS MAY TEND TO BE NEUTRAL. PERHAPS THE MOST IMPORTANT FEATURE OF THE BUDGET IS THAT WHICH PROVIDES TAX RELIEF TO IRISH INDUSTRY. CORPORATION TAX RATES ARE TO BE REDUCED, AND THIS SHOULD GO A LONG WAY TOWARD ENCOURAGING INVESTMENT AND RESTORING BUSINESS CONFIDENCE, AS HAS ALREADY BEEN EVIDENCED BY PRELIMINARY REACTIONS
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TO THE BUDGET BY THE BUSINESS SECTOR.

2. MINISTER RYAN IN HIS PRESENTATION ACCOMPANYING THE BUDGET FORESEES REASONABLY GOOD EXTERNAL DEMAND PROSPECTS FOR IRISH GOODS IN 1977, AND HE FEELS THAT THE BUDGET WILL LAY THE FOUNDATION FOR CONTINUED EXPORT-LED GROWTH. HE ENVISAGES A GNP GROWTH RATE OF 4 PERCENT IN 1977. THE TOTAL BUDGET IS 2,029 MILLION POUNDS AND

ANTICIPATES A DEFICIT OF 218 MILLION POUNDS, WHICH IS ONLY A SMALL INCREASE OVER THE 201 MILLION POUNDS ENVISAGED IN THE 1976 BUDGET. THE GOVERNMENT'S BORROWING REQUIREMENT HAS INCREASED FROM 1976'S 506 MILLION POUNDS TO 573 MILLION POUNDS THIS YEAR. THIS INCREASE, HOWEVER, IS LESS THAN THE INFLATION RATE AND ACTUALLY REPRESENTS A DECREASE IN TERMS OF PERCENTAGE OF GNP. THIS PARTICULAR DEVELOPMENT IS REGARDED BY OBSERVERS AS BEING A VERY IMPORTANT STEP TOWARD IMPROVING IRELAND'S FISCAL AND FINANCIAL STANDING.

3. IT HAD BEEN FEARED PRIOR TO THE BUDGET THAT THE GOVERNMENT MIGHT INCREASE TAXES ON SOME SPECIFIC ITEMS, BUT THESE FEARS WERE NOT REALIZED. ON THE CONTRARY, INCOME TAXES ARE TO BE REDUCED, THERE WILL BE RELIEF ON PROPERTY TAXES, CORPORATE TAXES ARE TO BE CUT, AND AN EXTRA 9.5 MILLION POUNDS IS PROVIDED FOR SUBSIDIES FOR BUTTER, MILK AND CHEESE. BY AVOIDING TAX INCREASES WHICH WOULD RAISE PRICES AND BY SUBSIDIZING BASIC FOOD ITEMS THE GOVERNMENT HAS MADE A CONTRIBUTION

TO CHECKING THE RATE OF INFLATION IN IRELAND. ON THE OTHER HAND, POSTAL RATES ARE TO BE INCREASED BY 13 PERCENT AND TELEPHONE, TELEGRAM AND TELEX CHARGES WILL INCREASE BY 25 PERCENT. THIS IS AN INCREASE IN USER FEES AND IS JUSTIFIED BY INCREASING COSTS EXPERIENCED IN RECENT YEARS AND BY THE FACT THAT THESE SERVICES HAVE BEEN OPERATED AT A VERY SUBSTANTIAL LOSS.

4. KEY PROVISIONS OF THE BUDGET ARE PERSONAL TAX CUTS AND EXPENDITURE ON EMPLOYMENT CREATION. THESE PROVISIONS WERE PROMISED BY THE GOVERNMENT LAST OCTOBER AS AN INDUCEMENT TO LABOR TO MODERATE UNCLASSIFIED

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WAGE DEMANDS IN THE NEGOTIATION OF THE NATIONAL WAGE AGREEMENT (REFTEL). THE PERSONAL TAX CUTS OFFERED ARE SMALL BUT NEVERTHELESS RAISE THE NET DISPOSABLE INCOME AVAILABLE TO LABOR, AND THEY SHOULD AT THE SAME TIME ACT AS A STIMULUS TO FINAL CONSUMPTION. THE GOVERNMENT ENVISAGES THE EXPENDITURE THIS YEAR OF 56 MILLION POUNDS ON EMPLOYMENT CREATING PROJECTS WHICH SHOULD PROVIDE 7,000 NEW JOBS IN 1977. MOST OF THE EXPENDITURE WILL BE ON THE PUBLIC CAPITAL PROGRAM, SPECIFICALLY INDUSTRIAL INVESTMENT AND INCREASED BUILDING AND CONSTRUCTION SUCH AS SCHOOLS, HOSPITALS AND TRAINING CENTERS. WHETHER THE UNIONS WILL FIND THESE CONCESSIONS TO BE RESPONSIVE TO THEIR DEMANDS AND WHETHER THEY WILL RATIFY THE NATIONAL WAGE AGREEMENT

REMAIN TO BE SEEN.

5. THE BUDGET ALSO ATTEMPTS TO BRING MORE FARMERS INTO THE TAX NET. THE NATION'S 170,000 FARMERS HAVE BEEN VIRTUALLY EXEMPT FROM INCOME TAXES. LEGISLATION IN RECENT YEARS MADE ABOUT 9,000 LIABLE AND ABOUT 6,500 MORE WILL BECOME LIABLE TO INCOME TAX UNDER THE PROVISIONS OF THE NEW BUDGET. THIS HAS BEEN REGARDED AS A MATTER OF EQUITY

BY UNIONS AND INDUSTRIAL WORKERS WHO FELT THEY WERE CARRYING A DISPROPORTIONATE SHARE OF THE TAX BURDEN.

6. ON BALANCE, THE BUDGET, WHILE HARDLY BEING EXCITING, SEEMS TO BE A STEP IN THE RIGHT DIRECTION OF FISCAL AND FINANCIAL MODERATION. IT SHOULD CONTRIBUTE TO STRONGER BUSINESS CONFIDENCE AND IT CAN MAKE A REAL CONTRIBUTION TO THE MODERATION OF THE RATE OF INFLATION IN IRELAND, PARTICULARLY IF THE UNIONS ARE INDUCED TO ACCEPT THE NATIONAL WAGE AGREEMENT. CURLEY

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